
MEMORANDUM

To: CalPERS Investment Committee

From: PCA Real Estate Advisors, Inc.

Re: Quarterly Performance Report

We have reviewed the Wilshire Associates Quarterly Performance Report, which includes the composite results for the real estate portfolio. It also includes the results of the publicly traded REIT managers but does not include the break out of the other components of the real estate portfolio. The numbers below were included in the Real Estate Portfolio Performance Report for the Quarter ending March 31, 2008, presented to the Investment Committee at the August 18th Investment Committee meeting.

This portfolio is a tale of two stories: the Core portfolio and the Specialized (Noncore) portfolio. The results are very disparate over the trailing one, three and five year periods. Over the long term, the real estate portfolio has performed well as shown below. However, more recent results have been disappointing.

The composite results are:

	One Year	Three Year	Five Year
CalPERS	5.7%	18.7%	19.7%
NCREIF	13.6%	16.8%	15.1%

The CalPERS real estate portfolio composite results were 5.7% (net) for the trailing one year period. The TUCS Universe Comparison was 6.1% for the same time period. A logical question to ask is why is there such a disparity among investors in the short term results versus the benchmark?

Most investors no longer invest in a “benchmark” investment strategy. We believe the primary reason for the difference between the median results and the benchmark is the large exposure many investors have to the publicly traded REIT markets. The EPRA NAREIT Index posted a -22.5% return for the trailing one year period. CalPERS has such an exposure in that approximately 9% of the real estate portfolio is invested in Global REITs.

Further, CalPERS has a large exposure to the housing sector, which obviously has performed poorly, with a -29.3% result for the trailing one year period. This sector is approximately 10% of the real estate portfolio. These two segments of the portfolio were the primary cause of the real estate portfolio’s underperformance relative to the benchmark for the trailing one year period. Looking forward, we expect the portfolio to continue to trail the benchmark in the near term due to the exposure to the housing sector.

PCA Real Estate Advisors, Inc.

On the positive side, though, is the performance of the Core portfolio which is approximately 49% of the portfolio. The Core portfolio has strongly outperformed the NCREIF Index as depicted below.

	One Year	Three Year	Five Year
CalPERS Core	20.8%	26.2%	25.4%
NCREIF	13.6%	16.8%	15.1%

Hopefully, the strong out performance of the Core portfolio will continue and will bolster the composite investment results of the real estate portfolio in the near term.

We look forward to answering any questions the Investment Committee may have at the meeting in September.